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Feature Article - Impact of 2003-2004 Farm Season on Australian Production

INTRODUCTION

Australia experienced a severe drought in 2002-2003 which had a significant impact on the growth of the Australian economy. This impact has been described in a number of feature articles with the most recent being in the June quarter 2003 release of **Australian National Accounts: National Income, Expenditure and Product** (cat. no. 5206.0).

More favourable weather conditions in recent months indicate improved prospects for the agriculture industry in 2003-2004. The purpose of this feature article is to provide estimates of the likely impact of the recovery on the agricultural production estimates published in the Australian System of National Accounts.

Based on the September 2003 forecasts from the Australian Bureau of Agriculture and Resource Economics (ABARE), agricultural production could be expected to have a direct effect of 0.7 percentage points on GDP growth between 2002-2003 and 2003-2004.

DIRECT EFFECT ON AGRICULTURAL PRODUCTION

ABS projections of agricultural production and costs in respect of 2003-2004 are primarily based on forecasts compiled by ABARE.

The following table shows, in seasonally adjusted chain volume terms, quarterly data for 2002-2003 and forecasts for 2003-2004. The table shows a much more marked increase in agricultural outputs than in agricultural inputs. The difference between the outputs and inputs is gross agricultural product at market prices. The expected rise in the estimates of gross agricultural product at market prices between 2002-2003 and 2003-2004 represents the direct impact on GDP of the recovery following the 2002-2003 drought. Gross agricultural product at market prices is expected to increase in chain volume terms from \$18,692 million in 2002-2003 to \$23,930 million in 2003-04, a rise of \$5,238 million or 28%. If this eventuates it will make a positive contribution of 0.7 percentage points to the growth in the volume of GDP between 2002-2003 and 2003-2004.

AGRICULTURAL PRODUCTION, Chain volume measures(a) : Seasonally adjusted

	Sep 02	Dec 02	Mar 03	Jun 03	Sep 03(b)	Dec 03(b)	Mar 04(b)	Jun 04(b)
Outputs	9,477	8,737	8,313	7,964	9,757	10,423	10,560	9,822
less inputs	4,169	4,007	3,898	3,725	4,154	4,260	4,219	3,999
Gross agricultural product at market prices	5,308	4,730	4,415	4,239	5,603	6,163	6,341	5,823

less taxes less subsidies on products	528	469	438	420	555	611	630	579
Agriculture industry gross value added at basic prices	4,780	4,261	3,977	3,819	5,048	5,552	5,711	5,244
Gross domestic product(c)	181,783	182,307	183,353	183,578	na	na	na	na

(a) Reference year for chain volume measures is 2001-2002.

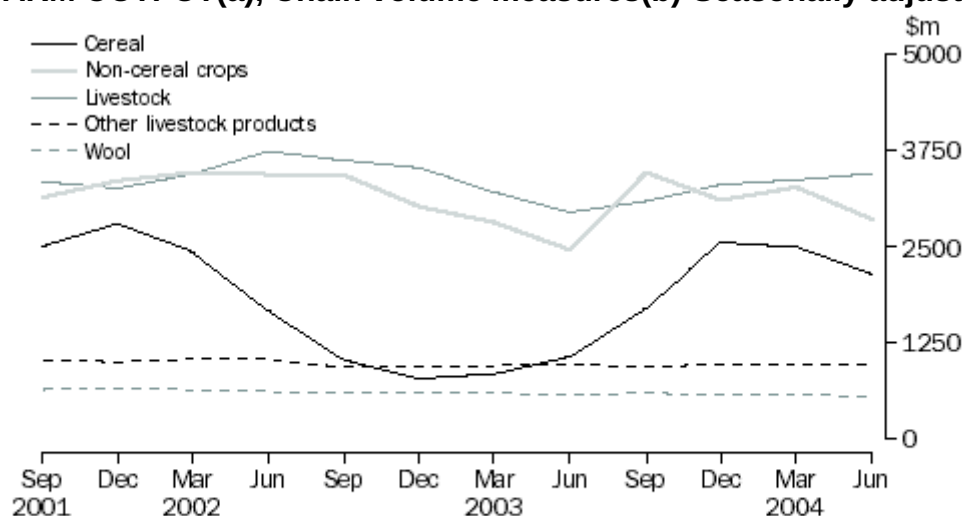
(b) Projections based on ABARE forecasts.

(c) As published in the June quarter 2003 issue of cat. no. 5206.0.

In the Australian System of National Accounts, industry estimates of value added are presented at basic prices, in accordance with international standards. Such estimates give a better indication of an industry's actual value added as they exclude the taxes less subsidies on the products produced by an industry. It is projected that gross value added at basic prices for the agriculture industry will rebound from \$16,837 million in 2002-2003 to \$21,555 million in 2003-2004, a rise of \$4,718 million or 28%.

The graph below, in seasonally adjusted chain volume terms, shows the projected outputs for five major categories of agricultural output. Most of these data are based on ABARE forecasts. The improved performance of the farm sector in 2003-2004 is expected to be driven by cropping industries, with the rise in the output of cereals forecast to more than double in 2003-2004. Caution should be exercised in interpreting the quarterly seasonally adjusted forecasts as revisions to the seasonally adjusted estimates may be expected as additional information becomes available.

FARM OUTPUT(a), Chain volume measures(b)-Seasonally adjusted



(a) Estimates for 2003-2004 are projections based on ABARE forecasts.

(b) Reference year for chain volume measures is 2001-2002.

INDIRECT IMPACTS

For a complete picture of the impact of the improved farm production on GDP, both the direct and indirect effects of the sector must be considered. Indirect effects can be put into two categories. The first category is the effect on downstream industries, principally transport, wholesale trade and the manufacturing of products from agricultural outputs. The second category comprises the multiplier effects arising from the increased value of production by the agriculture industry and its downstream industries. This has two elements. One arises from any increase in the inputs of these industries which leads to an increase in the production of other Australian industries. The

other arises from any increase in factor income of the agriculture and downstream industries that leads to a rise in final expenditures by farmers and others who draw an income from these industries.

In this article no attempt is made to quantify the magnitude of the indirect effects. These indirect effects are described in more detail in a feature article published in the September quarter 2002 issue of **Australian National Accounts: National Income, Expenditure and Product** (cat. no. 5206.0).

FURTHER INFORMATION

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